

Message Text

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AMCONSUL KRAKOW

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E.O. 11652: N/A

TAGS: ECON, PL

SUBJECT: SEEING NO ALTERNATIVE, POLAND TIGHTENS CENTRAL ECONOMIC
CONTROLS

REF 75 WARSAW 8206 (NOTAL), 75 WARSAW 7258 (NOTAL)

1. SUMMARY: POLISH PLANS FOR ECONOMIC GROWTH DURING THE
NEXT FIVE YEARS REFLECT A MORE CONSERVATIVE APPROACH TO
DEVELOPMENT, BASED ON FULLER UTILIZATION OF EXISTING
EQUIPMENT AND MANPOWER RESOURCES. THE GOVERNMENT'S
COMMITMENT TO A MORE MARKET-ORIENTED ECONOMY APPEARS TO
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BE INTACT, AND THE NOTION THAT RIGID CENTRAL PLANNING

IS NOT THE MOST EFFECTIVE METHOD FOR PROMOTING POLISH ECONOMIC GROWTH SEEMS TO BE MORE GENERALLY ACCEPTED. AT THE SAME TIME, IN RESPONSE TO THE PRESSURES OF A SUBSTANTIAL FOREIGN-TRADE DEFICIT AND TO THE NEED TO CURTAIL THE APPETITES OF INDUSTRIAL MINISTRIES FOR MASSIVE INVESTMENT, THE GOVERNMENT SEES NO ALTERNATIVE TO TIGHTENING ITS GRIP ON SELECTED AREAS OF THE ECONOMY. END SUMMARY.

2. IN THE MINDS OF POLAND'S ENTERPRISE MANAGERS, GROWTH HAS COME TO BE CLOSELY ASSOCIATED WITH IMPORTING TECHNOLOGY. THE OPENING OF THE CONOMY TO WESTERN EQUIPMENT AND KNOW-HOW WAS BASED ON THE ASSUMPTION THAT NEW TECHNOLOGY FROM THE WEST COULD MODERNIZE POLISH INDUSTRY AND, TO A LESSER EXTENT, AGRICULTURE, AT A FASTER PACE THAN COULD BE ACHIEVED WITH DOMESTIC RESOURCES AND ASSISTANCE FROM CEMA. THE 14.6 PERCENT AVERAGE ANNUAL RATE OF INDUSTRIAL GROWTH DURING THE LAST FOUR YEARS CONFIRMS THAT THE POLES WERE RIGHT. AS WAS TO BE EXPECTED, RAPID GROWTH PUT MANY STRAINS ON THE POLISH ECONOMY: CONSTRUCTION-INDUSTRY CAPACITY PROVED INADEQUATE; TRANSPORTATION SERVICES, SUFFERING FROM YEARS OF UNDERINVESTMENT, CREATED COUNTLESS BOTTLENECKS; CONSUMER INCOMES, RAISED IN THE HOPE OF ENCOURAGING HIGHER PRODUCTIVITY, OUT-STRIPPED MARKET SUPPLIES; AND MANPOWER, ONCE AVAILABLE IN ABUNDANCE, BECAME A SCARCE AND EAGERLY SOUGHT-AFTER COMMODITY.

3. AGAINST THE BACKGROUND OF THESE PROBABLY INEVITABLE TENSIONS AND OUT OF CONCERN FOR A DISTURBINGLY LARGE TRADE DEFICIT, THE GOVERNMENT IS NOW CALLING FOR A NEW APPROACH TO GROWTH, WHICH IT HOPES WILL GREATLY IMPROVE PRODUCTIVITY WHILE RESTORING BALANCE TO POLAND'S TRADE WITH THE WEST.

4. INVESTMENT-NEW INVESTMENT ACTIVITY IN THE COMING FIVE-YEAR PERIOD IS TO CONCENTRATE ON THE MODERNIZATION OF EXISTING PLANTS. THIS STRATEGY IS THOUGHT TO OFFER THE HIGHEST RATE OF RETURN FOR THE LOWEST COST, WHILE MINIMIZING EMPLOYMENT GROWTH. SPECIAL INCENTIVES, SUCH AS PREFERRED ACCESS TO CREDITS AND LICENSES, ARE LIMITED OFFICIAL USE

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BEING OFFERED FOR MODERNIZATION PROJECTS THAT CAN BE COMPLETED AND AMORTIZED IN A TWO-YEAR PERIOD. HIGH PRIORITY WILL ALSO BE GIVEN TO THE COMPLETION OF INVESTMENTS ALREADY UNDER WAY. ONE-THIRD OF ALL INVESTMENT EXPENDITURES IN THE NEXT FIVE YEARS WILL BE DEVOTED TO FINISHING PROJECTS THAT WERE INITIATED BEFORE JANUARY 1, 1976.

5. REACTING TO ITS INABILITY TO HOLD DOWN INVESTMENT IN 1974 AND 1975, THE GOVERNMENT HAS DECLARED ITS INTENTION TO IMPOSE FINANCIAL PENALTIES ON ENTERPRISES WHICH INITIATE UNAUTHORIZED INVESTMENT PROJECTS. IN A MOVE TO CUT INVESTMENTS DRAIN ON FOREIGN EXCHANGE, CENTRAL AUTHORITIES WILL ENFORCE MORE STRINGENTLY THE OBLIGATION OF INVESTORS TO REPAY THE FOREIGN-CURRENCY COSTS OF A PROJECT FROM ITS PUTPUT.

6. EMPLOYMENT - THE RELATIVELY LOW COST OF POLISH LABOR AS A FACTOR OF PRODUCTION HAS TRADITIONALLY ENCOURAGED THE INEFFICIENT USE OF MANPOWER. MANY INDUSTRIAL OPERATIONS CONTINUE TO BE EXCESSIVELY LABOR-INTENSIVE, EVEN AFTER THE INTRODUCTION OF MODERN EQUIPMENT. THE RESULTING SHORTAGE OF MANPOWER HAS NECESSITATED THE CONSTRUCTION OF SOME NEW PLANTS IN AREAS REMOTE FROM SOURCES OF SUPPLY AND MARKETS, BUT NEAR AVAILABLE (USUALLY UNSKILLED) LABOR.

7 IN A JANUARY 22 SPEECH, PREMIER JAROSZEWICZ POINTED OUT THAT POLAN'S 70 PERCENT GROWTH IN INDUSTRIAL PRODUCTION FROM 1971-1974 WAS ACCOMPANIED BY AN INCREASE OF 15 PERCENT IN INDUSTRIAL EMPLOYMENT. INDUSTRIAL OUTPUT IS EXPECTED TO RISE 50 PERCENT IN THE NEXT FIVE YEARS, HE SAID, BUT EMPLOYMENT GROWTH MUST BE HELD TO 6 PERCENT. HE ADDED THAT EXISTING PLANTS MUST YIELD SOME EMPLOYEES TO NEWLY-CONSTRUCTED INSTALLATIONS. AS AN INCENTIVE TO CUT EXCESS MANPOWER, PART OF THE FUNDS SAVED BY REDUCING STAFF WILL BE DISTRIBUTED AMONG THE REMAINING WORKERS.

8. DECENTRALIZATION - JAROSZEWICZ ALSO SPECIFICALLY REAFFIRMED THE GOVERNMENT'S LIMITED OFFICIAL USE

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SUPPORT FOR THE WOG SYSTEM. HE INSISTED THAT MEASURES INTENDED TO STRENGTHEN MARKET BALANCE, INCLUDING NEW CONTROLS OVER THE WAGES FUND, WOULD NOT LEAD TO A RESTORATION OF OLD MANAGEMENT METHODS. THE AUTHORITY OF WOG MANAGERS IS, HOWEVER, BEING AT LEAST TEMPORARILY REDUCED IN TWO WAYS:

A. A TIGHTER LINKAGE, WHICH HAS NOT BEEN PUBLICLY DESCRIBED, HAS BEEN MADE BETWEEN WAGE INCREASES AND PRODUCTIVITY GAINS. THIS MOVE REDUCES THE CONTROL OF THE WOG'S OVER THEIR WAGES FUNDS.

B. A NEWLY IMPOSED EXPORT TAX (WARSAW 8206) DECREASES THE WOG'S DISPOSABLE REVENUES.

9 ALTHOUGH WE BELIEVE THAT THE
NEW
MANAGEMENT

PRINCIPLES INTRODUCED WITH THE WOG'S ARE WELL-ESTABLISHED
AND WILL BE EXTENDED TO COVER THE ENTIRE INDUSTIRAL
SECTOR, IT APPEARS THAT WOG MANAGERS WILL BE OBLIGED
TO ACCEPT SOME ADDITIONAL LIMITATIONS ON THEIR AUTHORITY
DURING THE COMING FIVE-YEAR PERIOD.

10. PRICES - CENTRAL CONTROL OVER THE POLISH PRICE
SYSTEM IS VERY UNLIKELY TO BE REDUCED, AT LEAST DURING
THE FIRST THREE YEARS OF THE COMING FIVE-YEAR PLAN.
SOME MOVEMENT TOWARD A CLOSER RELATIONSHIP BETWEEN
DOMESTIC AND WORLD MARKET PRICES HAS OCCURRED, E.G.,
CERTAIN INDUSTRIAL RAW-MATERIAL PRICES HAVE BEEN
INCREASED (WARSAW 7258), AND INCREASES IN CONSUMER-
REMOVE COMPLETELY THE SUBSIDIES ON EITHER CONSUMER OR
INDUSTRIAL PRICES.

1. POLAND'S COMMITMENT TO ECONOMIC GROWTH HAS NOT
SLACKENED, AND ITS GOAL OF ESTABLISHING A DURALBE LINK
WITH MARKET ECONOMIES HAS NOT CHANGED. CIRCUMSTATNCES,
HOWEVER, INCLUDING A TROUBLESOME BALANCE-OF-PAYMENTS
DEFICIT AND AN EXCESSIVELY HIGH LEVEL OF INVESTMENT
ACTIVITY, HAVE FORCED SOME GREATER CENTRALIZATION OF
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THE ECONOMIC SYSTEM. WE BELIEVE MOST POLISH AUTHORITIES
WOULD PREFER TO CONTINUE THE DECENTRALIZATION OF THEIR
ECONOMY, BUT WHEN THEIR REFORM EFFORTS BRING DIFFI-
CULTIES, THEY RETREAT TO CENTRALIZATION. THEY ARE
WILLING TO ADMIT THAT CENTRAL CONTROLS ARE NOT THE
ANSWER OVER THE LONG RUN, BUT SEE NOT ALTERNATIVE TO
THEM IN DEALING WITH PROBLEM SITUATIONS REQUIRING
RELATIVELY QUICK SOLUTIONS.

DAVIES

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